

**Transcript of Press Conference by Senator Kent Conrad, D-ND,
Responding to 2003 Deficit Announcement
October 20, 2003**

The Office of Management and Budget has just issued their formal outlook on the deficit for 2003 and they've concluded it is \$374 billion. I was somewhat amused to see them say they thought that was good news. And the good news that they found was that this deficit is smaller than their previous estimate. I think that raises the question of good news compared to what?

If you compare it to previous deficits in the history of the country, this is the largest deficit ever in our nation's history. So, the first comparison would be previous deficits, and this is by far the largest.

The second relevant comparison is what was the deficit last year. The deficit last year was \$158 billion, less than half as big as this deficit of \$374 billion. You can see that now President Bush has taken us from the biggest surplus in our nation's history to the biggest deficit in our nation's history in just three years.

I also was interested to see them try to downplay the size of the deficit by saying it was 3.5 percent of GDP. Of course, that leaves out the money that they are taking from Social Security. And they're taking nearly \$160 billion of Social Security surpluses as well. So on an operating basis, the deficit is not 3.5 percent of GDP, but nearly five percent of GDP, which is a very high level.

It's interesting if you compare because they are going back to the 80's and saying that the unified deficit is smaller than the deficit then. But what that leaves out is that in the 80's there was virtually no Social Security money to take, about \$200 million. Now, the Social Security surplus for this year is \$156 billion and they're taking it all, every penny. And so the operating deficit is not \$374 billion, but nearly \$530 billion. That is a staggering deficit by any measure. And, of course, next year they say it's going to be even bigger and even worse.

I would say this to those who are interested in where this is all headed. These are in some ways the good times. This is a page out of the President's own budget document looking ahead at what the President's policies would produce in deficits and as you can see, now is the good times, even though they are record deficits. The President's own projections, if we adopt his spending policy and his tax policy, is that they will plunge this country into an ocean of red ink far beyond anything that we see now, even though these are record deficits.

They're saying they're going to improve things the next few years. They're going to cut the deficit in half. Yes, we see the deficit going down from these record levels in the near term, but then exploding as the baby-boomers retire and as the cost of the tax cut the President has proposed explode in cost as well.

This is I think the most sobering chart of all because what it shows is that now the trust

funds of Social Security and Medicare are roughly off-setting the size of the tax cuts, but as the baby-boomers retire and the trust funds go cash negative – the trust funds of Social Security and Medicare – at that very time, the cost of the tax cuts the President is proposing and has already implemented absolutely explode, driving us deeper into deficit and debt in a way that is totally unsustainable by any measure.

And finally, the statement of Comptroller General David Walker who said, “The ‘bottom line’ is, there is little question that deficits do matter, especially if they are large, structural and recurring in nature. In addition, our projected budget deficits are not ‘manageable’ without significant changes in ‘status quo’ programs, policies, processes and operations.”

The hard reality is that we are headed for very difficult choices as a nation. And this President is making the situation far worse by digging the hole deeper. Look, all of us know that it was fully possible to have deficits at a time of economic downturn after the attack on the country and, in fact, I supported substantial tax cuts in the near term. I supported tax cuts even larger than those the President proposed in order to give lift to the economy. But that’s the short-term circumstance. The long-term circumstance is that the President is proposing even more tax cuts that explode in cost right at the time the baby-boomers retire, when they are projecting the economy to have been fully recovered. There is absolutely no rationale for that policy. It is a policy that will fundamentally threaten Social Security and Medicare and most of the government as we know it. That is the harsh reality of where this is all headed.

Question: The economy seems like it’s picking up some steam. What is your sense of how growth of the economy will effect the ‘04 deficit, particularly given the offsetting effect of Iraq and the \$87 billion package. Do you think the ‘04 number is going to be roughly what the administration projected earlier this year?

Conrad Answer:

I don't have any independent analysis at this point other than CBO's own estimates that had a somewhat smaller deficit than what OMB is projecting for next year. Nonetheless, these are very large deficits, a bigger deficit next year than this. You know, I'm not nearly as concerned about short-term deficits, although they, too, are alarming, given the record nature of them. I am really much more concerned about where the President's policies take us in the longer term. You know, in the short term, there is no question if you write \$500 or \$600 billion of hot checks you can pump up the economy. But that's not a sustainable policy over time, and that's the problem with the President's policies.

Look, I think most of us recognized you had to have additional spending, additional tax cuts in order to lift the economy in the short term and that would produce deficits. The problem is the President proposes more of the same in future years when the economy, according to him, will be growing strongly in a way that is totally unsustainable given the retirement of the baby-boom generation, and that will burden the economy.

You know, the economic models show something very interesting. They show a short-term gain with the President's policies, but then starting toward the end of next year, that you're better off having done nothing than the President's policies, that the President's policies will actually reduce long-term economic growth, reduce job creation and threaten the economic security of the country.

Question: Senator, as I'm sure you know, the OMB in its mid-session review in July projected an '03 deficit of \$455 billion, but that number assumed the adoption of all of the president's policies. The number that they've come out with today of \$374 billion is \$81 billion less than that, but of course all of the President's policies were not adopted as he had proposed them last year. Do you know what percentage of that \$81 billion decrease in the deficit is due to the non-enactment of his policies versus improved economic conditions? Have you or your staff been able to determine...

Conrad Answer:

I don't have that analysis at this moment, but we'd be happy to try to get it for you. We did not have, as you know, until just moments ago. We did not have the final number, so we've not been able to do all the analysis we'd typically do.

Question: The administration -- and I can't remember whether it was this budget or the budget before -- sort of threw a \$45 billion plug number to make the revenue numbers look worse. Do you think they might have done the same sort of thing with the deficit projection this time around, going to \$455 billion, knowing that it couldn't possibly be that bad, so anything less would be good news?

Conrad Answer:

You know, I have made it a longstanding practice not to try to divine others' motivations, because I can't do that. I don't know what's in people's heads and hearts. I just know what they do. They said at the time that the \$455 billion was a worst-case scenario. I think very much they didn't want to be surprised on the upside again. And, you know, now they're able to say, look, it's somewhat better than the horrible outcome we were forecasting just months ago.

But, again, I think the question is, compared to what? Is there real improvement? The deficit is more than twice as big as last year's deficit. The deficit is the biggest in our history. The deficit is very close to being the biggest in our history as a percentage of gross domestic product. And all of that is really, I think, less important than where the President's policies are taking us for the longer term. That is the thing that is truly shocking and what is truly dangerous for this country.

Question: Do you sense any buyer's remorse amongst some of your Senate Republican colleagues about voting for the tax cuts in light of the way the deficit is swelling? And do you see any chance for the serious bipartisan effort to reduce the deficit over the next couple of years?

Conrad Answer:

First of all, I have had a number of my Republican colleagues tell me we're about done tax cutting because of the growth of the deficits. I've had at least three Republicans say that to me privately. So I think they are getting concerned.

I don't see any sign yet of any serious attempt at a bipartisan plan to reduce the deficit. And let me just say, in the short term, it would be unwise to cut spending or to raise taxes -- in the short term. You know, you need to get this economic recovery under way. But we ought to quit digging the hole deeper. That's what the President is in here proposing -- dig the hole even deeper. That is a reckless course.

Question: You're talking about not digging the hole deeper. As you know, the Congress has not yet passed a Medicare prescription drug benefit. That will cost at least \$400 billion over the next decade. It's likely to expand in the out years, do exactly the sort of thing you're talking about. Is it time for Congress to reconsider that?

Conrad Answer:

You know, the money for the prescription drug benefit and Medicare is part of the budget. It is, I think, important to modernizing Medicare and to improving Medicare. But, look, I think going forward, everything is going to have to be on the table. We're going to have to be very serious about spending. We're going to have to be very serious about the revenue side of the equation. My own strong belief on the revenue side of the equation, we're going to have to look at the tax gap that's gotten very little attention -- over \$240 billion in 1998 -- that's the most recent numbers we have -- the difference between what was owed and what's being paid. That's a stunning amount of money for one year. And so I think we're going to have to have more focus on that gap between what people owe and what they're paying. The vast majority of people pay what they owe. But we have some who are not and that is unfair to all the rest.

Question: Senator, in spite of the efforts of yourself and Mr. Spratt to lay out the numbers that you've been doing for some time now, while it alarms many analysts, it obviously hasn't really resonated with the American people. Is there anything that you and your colleagues are doing to make these numbers more tangible to sort of show what it means when you're running \$500 billion deficits when the economy is growing?

Conrad Answer:

I don't agree with the underlying assumption that it is not registering with the American people. I think it is. In fact, our most recent polling shows a dramatic change in people's views on these issues. They think the deficits are a serious problem. They recognize that the fiscal condition of the country is running amok. I think it is registering with people.

And I think we're very much on the same trajectory we saw before when we had very large deficits, that is the deficits of the 80's. It took a long time to register and for it to become clear to

people how dangerous those deficits were. And in many ways those were less threatening to the country than these because at that time you had time to get well, you had time before the baby-boom generation started to retire. Now there is very little time to get well, and that's got to be a serious concern. You know, you see now a profusion of voices. You have the Comptroller General of the United States giving a very serious and detailed speech about what a threat this is to the long-term economic security of the country. You've got major national organizations, including business groups sounding the alarm. So I think the awareness of this issue is growing. And it's going to do nothing but get more serious.